

CALIFORNIA PUBLIC UTILITIES COMMISSION
Water Division

STANDARD PRACTICE FOR WATER
COMPANY FILINGS FOR FINANCING

Standard Practice U-13

San Francisco, California
September 2000

STANDARD PRACTICE FOR WATER COMPANY

FILINGS FOR FINANCING

A – OVERVIEW AND BACKGROUND

1. All Commission-regulated utilities must get Commission permission before issuing bonds or borrowing money when the period of indebtedness exceeds 12 months¹. The Commission can specify what the money is to be used for². Class C and Class D water utilities may seek approval of loans of more than 12 months duration through the advice letter process³. The purpose of this Standard Practice is to inform the utility how to file for advice letter approval, instruct the assigned analyst as to how to evaluate such filings and how to evaluate formal applications for financing approval, and instruct the utility on how to collect and process principal and interest surcharge revenues if the loan provides for a customer surcharge for payback. Other than filing an advice letter rather than a formal application, the Class C or D utility should follow all of the other requirements of PU Code § 816-830, General Order 96-B, and Rule 33 of the Rules of Practice and Procedure (Appendix G).
2. All other companies must file an application for financing approval, which is processed by the Water Division, which prepares an Examiner's decision for Commission consideration.
3. Principal and interest surcharges were first authorized by Decision (D.)88973, June 13, 1978 which authorized Quincy Water Company to borrow \$550,000 from the Safe Drinking Water Bond Act program. The surcharge was applied to the quantity rate for metered service.

B – SUBMITTAL, DATA REQUIRED

4. The utility submits a draft advice letter (Appendix A) by sending two copies to the Commission's Water Division. The Tariff Unit enters the data in the Proposal/Advice Letter system on Oracle. The Branch's Analyst checks form and content of the draft; the amount and use of proceeds; the terms and conditions of the borrowing; and completeness of the financial data and documentary evidences attached to the Filing.
5. The analyst notifies the utility by telephone or by Supplemental Data Request (See Appendix B, Supplemental Data Request form) of any deficiencies or additional requirements. Otherwise, the utility is notified to submit the application to the Docket Office or the advice letter to the Tariff Unit.
6. Once the submittal is received, reviewed, filed and assigned, the analyst does the following:

¹ Section 818 of the Public Utilities Code

² Section 823(a) of the Public Utilities Code

³ Decision 93-11-066, November 23, 1993, Stipulation Section II., A., 3.

- a. Sets up case file. Indicates Application or Advice Letter number, name of utility and the authority requested. Attaches checklist (see Appendix C) to case file and fills in dates or events as applicable.
- b. Reviews and verifies completeness of the Filing. Notifies utility by telephone or by Supplemental Data Request of any deficiencies or additional requirements.
- c. Verifies through the Case Information System the date when the Application appeared on the Commission's Daily Calendar and indicates such date on the checklist. Advice Letters are logged in the PAL database and the calendar date can be verified through PAL or the Branch's printed copy of the Daily Calendar. There is a 30-day period from the time the Filing appears on the Daily Calendar in which parties are allowed to file protests to an application (the nature of which may prompt Branch to turn the Filing over to the ALJ Division for hearing). There is a 20-day period for advice letters. At times the utility may file an amendment to the filing. Another 30-day or 20-day period starts from the time the amendment appears on the Daily Calendar for parties to file protests.

7. Some utilities may provide the Water Division with a Draft Decision (for an Application) to shorten the processing time. The Analyst checks the style, contents and verbiage of the Draft Decision and performs the necessary additions/deletions or edits. The requested authorization and information contained in the Draft should be consistent with the Application. Resolutions for advice letter filings are always prepared by analyst (Decision and Resolution are collectively referred to as Order).

8. The water or sewer system utility needs to provide public notice (including dollar amount and percentage of the expected revenue impact) of the debt. For less than 10% eventual impact, a legal notice in a newspaper of local circulation is adequate. For more than 10%, individual notice to customers is required. For Safe Drinking Water State Revolving Fund (SDWSRF) loans, the utility must also arrange a mutually agreeable date for a public meeting with its customers to explain the plant improvements program and proposed rate surcharge. Representatives from the Department of Health Services and/or the Department of Water Resources may attend this meeting to help the company explain this loan program to the customers. A notice must be published in a local newspaper advising the customers that the loan advice letter or application has been filed and announcing the date of the public meeting, and a notice of the meeting must also be sent to each customer at least 15 days prior to the public meeting.

9. If the request is for a SDWSRF loan, the utility must file the information listed in the attached Safe Drinking Water State Revolving Fund Loan Supplemental Data (Appendix D). This information is required before an advice letter for a SDWSRF loan can be processed.

C - ANALYSIS

9. General Analysis

- a. What authority is the utility asking for? Issue debt (type, features)? Equity (Common Stock, Preferred Stock)? Or a combination of Debt and Equity?
- b. For Safe Drinking Water State Revolving Fund (SDWSRF) is rate base treatment requested? (These loans can be serviced by surcharge only). Does the utility have loan confirmation from the Department of Health Services?
- c. Does the authority include execution of indentures? Encumbrance of utility property?
- d. Under what Section of the PU Code does the authority fall?
- e. For what purpose(s) will the utility use the proceeds obtained from issuing the debt? Is it in compliance with § 817 of the PU Code? If it is a surcharge loan and includes repayment of existing loans, you must make sure that all of the existing loan proceeds have already been invested in plant.
- f. Is the utility asking for an exemption from the Commission's Competitive Bidding Rule? Review requirements under Resolution F-616. The Competitive Bidding Rule is only applicable to utilities with bonds ratings of "A" or higher and applies only to issues of first mortgage bonds and debentures \$200 million or less. Issuance of bonds and debentures of \$20 million and below is exempt from the Competitive Bidding Rule.

10. Financial analysis is a process of selection, relation, and evaluation. The first step is to select from the total information available about a utility the information relevant to the decision under consideration. The second step is to arrange the information in a way that will bring out significant relationships. The final step is to study these relationships and interpret the results.

11. For Financing Orders, the Division does not conduct an in-depth analysis of the financial condition of the utility. The Analyst reviews the utility's (a) total operating revenues and net income, (b) 3-years construction budget, (c) 3-years cash requirements forecast, and (d) the recorded and pro-forma capital ratios. In addition, the Analyst verifies the amount and reasonableness of any proposed surcharge rates. Construction expenditures, cash requirements forecasts, capital structures, and other analytical reviews are normally conducted in general rate case or cost-of-capital proceedings.

12. It is important to assure that any loans that are being repaid by a principal and interest surcharge are being used only for new facilities. Using any of these funds to pay off existing loans which have not been invested in used-and-useful facilities is improper and should not be approved.

D – WRITING THE ORDER

13. The first part of the Order itemizes the item(s) that the Commission is authorizing or denying. At times, a partial approval and denial may occur. The Summary indicates the Section(s) of the PU Code whereby authority is given. In addition, the date when the filing appeared on the Commission's Daily Calendar, and protests, if any, are mentioned in this section of the Order. See Appendix E for sample format of the first and second pages of a Decision and Resolution.
14. All pages of the order should have the word "DRAFT" centered on the header; starting with page two to the end of the Order. The Analyst should indicate on the left-hand corner of the header the Filing number, the Branch, and the Analyst's initials.
15. Protests. The merits of the protests, if any, together with the response of the utility are addressed in this section. This section declares the validity and reasonableness of the protest or dismisses same as without merit or case.
16. The Background includes a statement that the utility is under the jurisdiction of the Commission, a brief description of the services provided by the utility, and its area of operation. This section includes a presentation of the utility's operating revenues, net income, and a summarized balance sheet.
17. Description of Debt. A detailed description of the debt or equity to be issued. This section includes a discussion of the terms and conditions of each issue of debt or equity and any features to enhance the securities. The Analyst indicates any necessary restriction or limitation with regard to the issue of the securities.
18. The closing paragraph of this Section should read: "We place (utility) on notice that the reasonableness of the cost of money resulting from its issue of securities/indebtedness are subject to scrutiny in subsequent ratemaking proceedings and may result in disallowance, if determined imprudent."
19. Exemption from Competitive Bidding. Indicate in this Section whether the utility is requesting, and can be granted an exemption from the Competitive Bidding Rule. Justify any exemption by citing the appropriate provision on Resolution F-616. The Analyst indicates recommended action on any additional request by utility for further modification of the Competitive Bidding Rule.
20. Capital Ratios. This Section presents the utility's capital structure (recorded and pro-forma) with the events creating the changes in equity, long-term debt, and short-term debt. The closing paragraph of this Section may read, "Capital structures are normally reviewed in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes."
21. Construction Budget. The utility's 3-yr. projected construction expenditures appear in this Section. The closing paragraph of this Section may read, "Branch advises us that (utility's)

proposed construction budget for (year) raises no questions that should dissuade us from giving favorable consideration to the financing requested in this filing. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.”

22. Cash Requirements Forecast. The utility’s 3-yr. cash requirements forecast is presented here. The following are the components (as applicable):

- a. Funds needed for construction expenditures
- b. Funds used or required for cash dividends
- c. Maturity of long-term debt
- d. Maturity of other debt
- e. Preferred stock redemption
- f. Estimated cash available from internal source
- g. Additional new fund required from outside source

The closing paragraph of this Section may read, “Branch has reviewed the Filing and has concluded that the proposed issue of debt (specify) is reasonable and that the authority should be granted. The Commission has considered Branch’s recommendations and, finding them reasonable, will adopt them as stated above.”

23. Use of Proceeds. See PU Code 817 for compliance on the uses of proceeds. If acceptable, the closing paragraph of this Section may read, “Branch has reviewed the proposed debt and has concluded that the utility’s proposed financing is necessary to provide funds for the purposes set forth in the Filing. Furthermore, Branch has no objection to the proposed debt.”

24. SB 960 compliance. This applies to an Application only. The utility requests that the Application be exempt from the Commission’s Rules 6 – 6.5. By Resolution at each Commission business meeting, the Commission preliminarily determines for each Application the category of the proceeding and the need for hearing. The following is added in the Order:

“In Resolution ALJ (number) dated (date), the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Resolution (number).

25. PU CODE § 311(g). For both Application and Advice Letter filing, the following is indicated in the Order:

“This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU code 311(g)(2) or 311(g)(3) as pertaining to water companies, the otherwise applicable 30-day period for public review and comment is being waived.”

26. Findings of Fact. The following may be used in this Section:

- a. The utility is subject to the jurisdiction of this Commission.
- b. The utility has need for external funds for the purposes set forth in the Filing.
- c. The proposed securities would be for proper purposes and not adverse to the public interest.
- d. The money, property, or labor to be procured or paid for by the debt issue is reasonably required for the purposes specified in the Filing.
- e. Authorizing the utility to encumber its properties as security for its debt issue is not adverse to the public interest.
- f. The utility has declared that the proposed debt issue is not subject to environmental regulations.
- g. The utility's request and reasons for exemption from the Competitive Bidding Rule are within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Resolution F-616.
- h. The authorization for debt enhancement and features are not adverse to the public interest and tools to improve the terms and conditions of the debt issue are for the benefit of the ratepayers.
- i. The Commission does not by this decision determine that the utility's construction budget, cash requirements forecast, and capital ratios are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case proceedings.
- j. Calendar of (date), and no protests have been received. There is no known opposition to the Filing and no reason to delay granting the authority requested.

27. Conclusions of Law (applicable only to Decisions). The following may be used in this Section:

- a. A public hearing is not necessary.
- b. The filing should be granted to the extent set forth in the order which follows.
- c. The proposed debt issue, including features and conditions of the offering, is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. The Proceeds from the debt may not be charged to operating expense or income.
- d. The utility should pay the fee in accordance with PU Code § 1904(b).
- e. The utility has previously paid the fee of (amount) determined in accordance with PU Code § 1904(b).
- f. The following order should be effective on the date of signature.

28. Ordering Paragraphs. The following may be used in this Section:

- a. The authority being granted, i.e., type of debt, guarantee, indenture, period of authorization (if requested), and total aggregate principal amount.
- b. Reports or documents the Branch may request the utility for copies. Generally, Branch expects the utility to response within thirty days from receipt of request.
- c. On or before the 25th day of each month, the utility shall file the reports required by General Order Series 24.
- d. Authorization for exemption from the requirements of the Commission's Competitive bidding Rule, if applicable.
- e. The Filing is granted as set forth above.
- f. The authority granted by this order to issue debt is granted as set forth above (if no fee is required) or the authority granted by this order will become effective when the utility pays the fee set by PU Code § 1904(b).
- g. The Filing is closed.

E – MODIFICATION TO AN ORDER

29. For filing requesting modification of an Order, a Supplemental Opinion shall be prepared by the analyst. After presenting the Background, a section entitled “Modification Sought” will follow.

F - FEE

30. Pursuant to PU Code § 1904, the Commission is to charge and collect a fee for any authorization to issue stocks, bonds, notes, or other evidences of indebtedness. See PU Code for computation.

29. The Code states that no fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission. This fee exemption is only applicable to prospective or projected refunding or refinancing of debt securities. Credit shall not be given to a utility company for past refunding, refinancing or retirement that is stated in an Application. In other words, if the refunding or retirement of debt securities occurred prior to the Filing or is not covered under an existing authorization, then the utility cannot at a later date or under separate Application claim for fee exemption.

30. The Analyst shall check Central Files' copy of the Application to determine if a fee has been paid or not. If the payment was sent simultaneously with the Filing, the fee payment and date are indicated and stamp by Fiscal Office on the first page of the Original Application kept by Central Files.

G - REVIEW

31. A Blue Routing Sheet properly filled out is attached to the Draft Decision or a Green Routing Sheet properly filled out is attached to the Draft Resolution, together with a Pink Transmittal Sheet as required by PU Code 311(g). The Draft Order is forwarded to the Branch Chief, Division Director, and Chief, ALJ Division, for comments and approval. The Analyst makes the changes to the Draft Order, as required.

32. Once the Draft Order is signed off by the ALJ Division, a Consent Agenda number (CA#) is procured from the Process Office. The CA# and the Commission meeting date is inserted on the upper right-hand corner of the first page of the Draft Order. Process Office requires 50 copies of the Draft Order (1 copy together with the original blue sheet or green sheet and pink transmittal sheet; 5 copies with a copy of the blue or green sheet (no pink required) for the five Commissioner's Office; and 44 copies (all fifty copies 3-hole punched, collated and stapled).

33. In the event that minor changes are made to the Draft Order after the copies have been distributed by Process Office, the Analyst makes the correction; places a bar on the right-hand side of the page where the correction occurs; inserts an "asterisk" after his or her initials on the header of the corrected page; and prepares a Notice of Non-Substantive Change. If a second non-substantive change is necessary prior to the Commission meeting, the same procedure applies and two asterisks are included in the header of the page of the second correction. In each event, seventy copies are made, with 30 copies distributed by the Branch to the distribution list, 20 to Process Office, and twenty copies (no Notice of Non-Substantive Change, not 3-hole punched) to the Escutia Package.

34. Once the Order is passed by the Commission and Process Office assigns a decision number, the Analyst prepares a clean copy (deleting the CA#, the Commission meeting date, and the word Draft from the header of the Order) indicating the decision number and the Commission meeting date on the upper left-hand corner of the first page of the Order, the Commission meeting date on the last page of the Order, and the names of the Commissioners who were present during the meeting on the last page of the Order. Process Office generally requires fifty copies (not 3-hole punched) of the Order. If an Order requires a PU Code § 1904 fee, the copies are mailed out only upon payment, with the last page of the Order stamped "Paid, Amount, Date" by Fiscal Office.

35. The case file, all workpapers, and five copies of the Order is kept for five years on file.

K – SERVICING THE LOAN

36. Once the loan is approved the utility will file a compliance advice letter incorporating the surcharge amounts into the tariffs.

- a. The loan repayment surcharge is separately identified on customers' bills.
- b. The surcharge remains effective until funds sufficient to repay the loan principal, interest and debt reserve have been accumulated, or until further order of the Commission.
- c. The utility plant financed through the surcharge is permanently excluded from rate base for ratemaking purposes.

- d. The utility establishes and maintains a separate bank account in which all deposits of the loan proceeds and disbursements are made.
- e. The utility deposits all rate surcharges collected with a fiscal agent into a trust account approved by the lender. Such deposits are made within 30 days after the surcharges are collected from customers.
- f. The utility establishes and maintains a separate balancing account in which all billed surcharge revenue and interest is recorded. The balancing account is reduced by payment of principal and interest to the lender and any fees to the trust account.
- g. The utility files with the Commission a copy of the loan agreement within 15 days of execution.
- h. The surcharge needs to be adjusted periodically to reflect changes in the number of connections. Such changes in future rates should be accomplished by normal advice letter procedures.
- i. Once a year the utility sends a comparative report to the Director of the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of service fee collected, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account. The utility also indicates in the report if an advice letter will be forthcoming to reflect changes in the surcharge rate.
- j. The surcharge to repay the loan lasts as long as necessary to repay the loan. The surcharge is never commingled with other utility charges.
- k. A service fee is charged to customers requesting future services to currently undeveloped lots and will be the accumulated total of the monthly surcharge as applied to the property being furnished water service from the initial effective date of the surcharge to the date of connection. The maximum service fee will be \$2,000. The service fee will be due and payable upon connection of water service to the property. Thereafter the customer shall pay the applicable tariff rates plus the monthly surcharge. Notice of this fee is added to the utility's request for water service form.
- l. Surcharge revenue is applied only to the cost of servicing the loan.

38. For surcharge loans, the lender should not provide any funds to the utility except upon presentation by the utility of a valid invoice.

**EXAMPLE OF A DRAFT ADVICE LETTER
SEEKING AUTHORITY FOR FINANCING**
(Size 8 1/2" x 11")

(Name of Utility)

Advice No. _____

Date _____

Public Utilities Commission of the State of California;

_____ hereby requests authority for the following financing, pursuant to Sections 816 and 851 to the California Public Utilities Code and Decision 93-11-066, General Order 96-A, and Rule 33 of the Rules of Practice and Procedure.

[Description for financing authority being sought.]

The proceeds of the loan will be used for the following purpose:

[PURPOSE]

The proceeds of this loan will not be used for operating expenses.

[For Safe Drinking Water State Revolving Fund (SDWSRF) loans: (Name of Company) proposes to establish a balancing account which would be credited with revenues collected through the proposed surcharge and any interest on deposits. The balancing account would be charged with payments of interest, trustee fees (if any), and principal on the loan. The surcharge would be adjusted, when authorized by a Commission resolution, to reflect changes in the number of connections and overages and/or shortages in the balancing account.]

This filing will not increase any rate or charge, cause the withdrawal of service or conflict with other schedules or rules [or if requesting a concurrent surcharge: This filing will increase rates after the execution of the loan, but will not cause the withdrawal of service nor conflict with other schedules or rules.] (Name of Water Company) hereby submits for filing the following changes in its tariff schedules:

Cal P.U.C.
Sheet No.

Title of Sheet

Canceling

[List]

It is desired that this filing become effective on [specify the desired effective date]. The effective date of the revised rate schedule (if any) would be the date of the execution of the loan, and would apply only to service rendered thereafter.

Appendix A

Anyone wishing to protest this filing may do so by letter or fax to the California Public Utilities Commission, Audit and Compliance Branch, 505 Van Ness Avenue, San Francisco, CA 94102. The protest must be received by the Commission no later than 20 days after the date of this filing. A copy shall also be mailed to the attention of the undersigned at [Name of Company], [water company's address]. There is no restriction on who may file a protest, but the protest must set forth specifically on the grounds on which it is based.

In compliance with Section III, Paragraph G of General Order 96-A, we are mailing a copy of this advice letter to the following utilities and/or interested parties:

[List]

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping open for public inspection at the Company the Advice Letter plainly stating the changes to be made and the time when the changes will take place.

[For SDWSRF loans: If this loan is approved, a copy of the loan contract with the State Department of Water Resources will be filed with the Commission as soon as it is available.]

[Name and Title of Utility Officer]

[Name of Utility]

cc: CPUC, SF - Attn: Chief, Audit and Compliance Branch

CALIFORNIA PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL DATA REQUEST

Small Water Company Advice Letter Filings for Financing

The Audit and Compliance Branch of the Water Division requests that each Class C and D water utility file the following supplemental information with each advice letter requesting authority for financing. This information will assist staff in analyzing the advice letters.

- A. Construction Authorization (including the decision or resolution number authorizing the construction), if any.
- B. Construction Budget, and if prior authorization for construction has not been acquired, a detailed justification for each budget item.
- C. When monies from the financing authority requested are to be used to refinance existing debt:
 - 1. A list of the debt to be refinanced, including:
 - a. Interest rates,
 - b. Balance Owed,
 - c. Current monthly payments
 - 2. Projected monthly payments after refinancing; and
 - 3. A list of all projected refinancing costs and fees.
- D. Cash Flow Statements using the format provided in Attachment A (must cover current year and at least one future year).
- E. When seeking financing for capital expenditures that have been made previously from moneys expended from income or other moneys in the treasury, include:
 - 1. Description of the construction or other capital expenditure;
 - 2. Source of funds that were used;
 - 3. Periods when the expenditures were made; and
 - 4. The reason the expenditure needs to be financed.
- F. An income statement for the most recent calendar year or twelve-month fiscal period.
- G. List of Assets and Loans (provide recorded data) using the format provided in Attachment B. Also list any shareholder loans and any amounts of owner or shareholder equity.

H. A letter from the water utility owner or president attesting that neither the water utility nor the owner nor any employee of the water utility has an ownership interest in the lender, or is involved in a partnership or joint venture with the lender.

I. A schedule showing the effect of the projected surcharge (if any), on a per month basis, for each type of customer.

J. The terms and conditions of the proposed loan. A dated copy of the public notice (including dollar amount and percentage of the expected rate impact of this debt). For less than 10% eventual rate impact, a legal notice is adequate. For more than 10%, individual notice to customers is required.

MONTHLY STATEMENT OF CASH INFLOW AND OUTFLOW

<u>Latest Recorded Year</u>			<u>Projected Year</u>		
Jan	Feb.....	Dec	Jan	Feb.....	Dec
<u>Cash In:</u>					
Operating Gross Revenue			\$	\$	\$
Sale of Equipment			\$	\$	\$
Sale of Property			\$	\$	\$
Proceeds from Approved Debt			\$	\$	\$
Proceeds from Proposed Debt			\$	\$	\$
CIAC			\$	\$	\$
Advances			\$	\$	\$
Facilities Fees			\$	\$	\$
Connection Fees			\$	\$	\$
Other			\$	\$	\$
TOTAL	\$	\$	\$	\$	\$
<u>Cash Out:</u>					
Operating Expenses (1)			\$	\$	\$
Purchase of Equipment			\$	\$	\$
Purchase of Property			\$	\$	\$
Payment of Debt (2)			\$	\$	\$
Loan #1			\$	\$	\$
Loan #2			\$	\$	\$
Loan #3, etc.			\$	\$	\$
Refunds of Advances			\$	\$	\$
Other			\$	\$	\$
TOTAL			\$	\$	\$

Notes:

(1) Do not include in these operating expenses depreciation or any other expense where there is only an accounting entry and no direct outlay of cash.

(2) Include both the payment of principal and interest here.

ASSETS AND LIABILITIES

Total Assets	\$
Debt:	
Balance Owed Loan #1	\$
Balance Owed Loan #2	\$
Balance Owed Loan #3	\$
Total Liabilities	<u>\$</u>

Check List – Financing Authorization

Name of Utility: _____

Application/Advice Letter Number: _____

1. Date Application Filed: _____
2. Date Application Received by Analyst: _____
3. Date Calendared: _____
4. ALJ Res. Number/Date Filed: _____
5. Protests Received: _____
6. Date Data Request sent to Company: _____
7. Date Reply from Company Received: _____
8. Commission Meeting Date: _____
9. Process Deadline: _____
10. Agenda Review Date: _____
11. Date Protest Period Ends: _____

SAFE DRINKING WATER STATE REVOLVING FUND SUPPLEMENTAL DATA REQUEST

- A. A report on water quality and subsequent recommendation on improvements to the water system by the state Department of Health Services (DHS).
- B. Completed "Supplemental Data Sheet Current Count of Active and Inactive Services and Related Data" (SDWBA Form 2).
- C. A copy of the "Commitment Letter" from DWR indicating that the loan amount has been set aside for the utility.
- D. A copy of the Amended or Revised Water Permit issued by DHS together with the accompanying DHS Engineering Report describing water system deficiencies and proposed improvements.
- E. A copy of a Negative Declaration under the California Environmental Quality Act, prepared by DHS.
- F. A schedule of present rates.
- G. A proposed surcharge schedule to amortize the loan, interest and debt reserve.
- H. A map showing the present water system and the SDWBA project improvements.
- I. A description of the planned improvements and an explanation of why they are needed.
- J. A balance sheet (provide recorded data) and an income statement for the most recent calendar year to twelve month fiscal period.
- K. Construction budget, cash requirements forecast, capital ratios (See Appendix F).

SUPPLEMENTAL DATA SHEET
CURRENT COUNT OF ACTIVE AND INACTIVE SERVICES AND RELATED
DATA

As of _____/_____/_____, _____

Month Day Year Name of Company

Was serving _____ Metered Customers; _____ Flat Rate Customers;

_____ Inactive Metered Services; and _____ Inactive Flat Rate

Services, all segregated as follows:

METERED SERVICES

<u>Meter Size</u>	<u>No. of Active Meters</u>	<u>No. of Inactive Meters</u>
5/8" x 3/4"		
3/4"		
1"		
1 1/2"		
2"		
Other Size		
Total		

FLAT RATE SERVICES

Combined Grand Total _____

A.00-09-0XX WATER/ABC

DRAFT

We note herein that on March 16, 2000, Cal-Am and Citizens Utilities Company California (Citizens CA) filed their Joint Application No. 00-05-015 seeking, inter alia, authority for Cal-Am to acquire all of the California water utility assets of Citizens CA.

On May 16, 2000, Cal-Am and SJW Corp., San Jose Water Company (SJ Water), and SJW Acquisition Corp. filed their Joint Application No. 00-05-016 seeking, inter alia, authority for Cal-Am to merge with SJ Water.

Some of the issues to be decided in each of the proposed Joint Applications overlap with this financing Application, particularly those that relate to the financing that Cal-Am will require to accomplish the respective Citizens CA asset acquisition and SJ Water merger.

Pursuant to Rule 73 of the Commission's rules of Practice and Procedure, Cal-Am requests the Commission to take official notice of the above matters in this proceeding.

For the period ending May 31, 2000, Cal-Am reports it generated total operating revenues of \$25,630,384 and net income of \$1,588,462, as shown in Exhibit 2 attached to the Application.

DRAFT
WATER/ABC

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-XXXX
SEPTEMBER 20, 2000**

R E S O L U T I O N

RESOLUTION W-XXXX. UTILITY NAME. REQUEST TO BORROW FUNDS UNDER THE SAFE DRINKING WATER STATE REVOLVING FUND (SDWSRF), TO ADD A SURCHARGE TO WATER RATES TO REPAY THE PRINCIPAL AND INTEREST, AND TO PROVIDE A SINKING FUND RESERVE EQUAL TO ONE YEAR'S DEBT SERVICE.

By Advice Letter No. XX Filed on August 30, 2000.

SUMMARY

This Resolution grants in part and denies in part the authority requested by Utility in Advice Letter (AL) No. XX.

Utility, a Class C water utility, requests authority to enter into a loan agreement with the Department of Water Resources (DWR) to borrow a total of under the SDWSRF; to encumber its assets in connection with the loan; and to place in effect a surcharge on existing water rates for the purpose of amortizing the loan and accumulating a sinking fund reserve to equal to one year's debt service.

This financing authority grants Utility a (\$amount) Phase I loan with DWR.

Resolution W-XXXX
Utility Name AL XX/ABC

DRAFT

PARTIAL DENIAL OF ADVICE LETTER

Utility's request to borrow (\$ amount) under the SDWSRF is denied without prejudice.

BACKGROUND

Utility, is centered within ...

_____ **WATER COMPANY**

U-XX-W

CONSTRUCTION BUDGET COMPARISONS 1998 - 2000

<u>Construction Item</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Land	5,000	5,000	5,000
Source of Supply	86,200	100,000	120,000
Reservoirs and Tanks	364,800	400,000	450,000
Pump stations & Equip.	2,148,300	1,350,000	1,400,000
Distribution System	13,766,000	15,143,500	16,528,000
Equipment	1,831,400	2,100,000	1,500,000
Structures & Non Specifics	<u>1,513,300</u>	<u>1,280,000</u>	<u>1,210,000</u>
Subtotal \$19,715,000	20,378,500	21,213,000	
Cost of Retiring	<u>600,000</u>	<u>630,000</u>	<u>662,000</u>
Total 20,315,000	21,008,500	21,875,000	

_____ **WATER COMPANY**

U-XX-W

STATEMENT OF CASH REQUIREMENTS FOR YEARS 1998 AND 1999

<u>1998</u>	<u>1999</u>	
Funds Used or Required for		
Construction Expenditures	\$1,150,342	\$0
Maturity of Long-Term Debt:		
Bonds, Notes, Debentures, etc.	12,000	12,000
Short-Term Debt as of Apr. 1, 1998	118,233	30,000
 Total	 1,637,575	 42,000
Less: Estimated Cash Available		
from Internal Sources	78,393	81,109
Additional New Funds Required		
from Outside Sources	<u>\$1,559,181</u>	<u>(\$39,109)</u>

WATER COMPANY

U-XX-W

CAPITAL RATIOS
AS OF March 31, 1998

<u>Recorded</u>	<u>%ProForma</u>		<u>%</u>	
Long-Term Debt	\$2,923,803	72.4%	\$4,506,512	80.2%
Short-Term Debt	118,233	2.9%	118,233	2.1%
Total Debt	3,042,036	75.4%	4,624,745	82.3%
Preferred Stock	0	0.0%	0.00	0.0%
Common Equity	993,624	24.6	933.624	17.7%
Total	<u>\$4,035,660</u>	<u>100.0%</u>	<u>\$5,618,369</u>	<u>100.0%</u>

CALIFORNIA PUBLIC UTILITIES COMMISSION

FROM THE RULES OF PRACTICE AND PROCEDURE

Article 8. Applications to Issue Stock

Or Evidences of Indebtedness, or to Assume Liabilities

33. (Rule 33) Contents. This article applies to applications under Sections 816-830 of the Public Utilities Code. In addition ... such rules shall contain the following data, either in the body of the application or in exhibits attached thereto:

(a) A general description of applicant's property and its field of operation, the original cost of its property and equipment, individually or by class, and the cost thereof to applicant and the depreciation and amortization reserves applicable to such property and equipment, individually or by class. If it is impossible to state original cost, the facts creating such impossibility shall be stated.

(b) The amount of ... bonds, notes or other evidences of indebtedness which applicant desires to issue, with terms, rate of interest, and whether and how to be secured; the amount and description of the indebtedness which applicant desires to assume.

(c) The purposes for which the securities are to be issued;

(1) If for property acquisition, a detailed description thereof, the consideration to be paid therefor, and the method of arriving at the amount.

(2) If for construction, completion, extension or improvement of facilities, a description thereof in reasonable detail, the cost or estimated cost thereof, and the reason or necessity for the expenditures.

(3) If for improvement of service, a statement of the character of the improvements proposed, or if for maintenance of service, a statement of the reasons why service should be maintained from capital.

(4) If for discharge or refunding of obligations, a full description of the obligations to be discharged or refunded, including the character, principal amount, discount or premium applicable thereto, date of incurrence, date of maturity, rate of interest, and other material facts concerning such obligations, together with a statement showing the purposes for which such obligations had been incurred, or the proceeds expended, and the Commission's decisions, if any, authorizing the incurrence of such obligations.

(5) If for the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, a statement of the reason or necessity for such financing.

(6) If for ... readjustment of indebtedness or capitalization, or for the retirement or exchange of securities, a full description of the indebtedness or capitalization to be readjusted or exchanged, a proforma balance sheet, if possible, giving the effect to such ... readjustment; and a statement of the reason or necessity for the transaction.

- (7) If for reimbursement of moneys actually expended from income, or from any other moneys in the treasury, a general description of the expenditures for which reimbursement is sought, the source of such expenditures, the periods during which such expenditures were made, and the reason or necessity for such reimbursement.
- (d) A complete description of the obligation or liability to be assumed by applicant as guarantor, indorser, surety or otherwise, the consideration to be received by applicant, and the reason or necessity for such action...
- (e) Other pertinent facts. The filing of additional information may be required by the Commission in particular instances.

STANDARD PARAGRAPHS FOR PROPOSED DECISIONS
WATER COMPANY LOAN REQUESTS

BACKGROUND

For the year ended _____, utility reported it generated total operating revenues of \$_____ and net income of \$_____, as shown in Attachment X to the Application.

Utility's balance sheet at _____, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Total Assets	
Capitalization and Liabilities	
Total Capitalization	
<u>Current Liabilities</u>	
Deferred Credits	
Total Capitalization and Liabilities	

DEBT SECURITIES

Within 15 days after awarding the contract for the sale of debt securities by competitive bidding, utility shall file a written report with the Water Division showing for each bid received, the name of the bidder, the price, the interest rate and the costs of money to utility based on the price and interest rate.

If debt securities are sold by means of a public offering, utility shall file with the Water Division three copies of the final prospectus pertaining to the debt securities, as soon as practicable, after the prospectus is available.

Within 15 days after the issuance and sale of any series of debt securities by means of negotiated underwritten public offerings or negotiated private placements, including commercial bank borrowings, in either the domestic or foreign markets, utility shall file with the Water Division a report showing why the resulting interest rate and cost of money were the most advantageous to utility and its ratepayers.

PREFERRED OR COMMON STOCK

Within 15 days of issuing Preferred and/or Preference Stock which contains adjustable dividend rates, utility shall furnish to the Water Division a report analyzing all costs associated with the issuance of Preferred and/or Preference Stock with adjustable dividend rates in comparison to a projection of “all-in-cost” without the adjustable dividend rates.

Within 45 days of issuing Preferred and/or Preference Stock with adjustable dividend rates, utility shall provide the Water Division with complete copies of any and all associated documentation.

If utility elects to terminate a contract in which it agrees to issue Preferred and/or Preference Stock with adjustable dividend rates before the consummation of the contract or the other party(s) terminates the contract, all costs associated with the termination shall be subject to review in utility’s next cost of capital proceeding.

Issuances of Preferred and/or Preference Stock which contain adjustable dividend rates shall not exceed more than ____% of utility’s total Preferred/Preference Stock outstanding at any one time.

The number of shares outstanding, the total par (stated) value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

The utility and its stockholders are placed on notice that the Commission does not regard the number of shares outstanding, the total par value of the shares, or the exchange offerings as determining the utility's allowable return on plant investment. Our authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amount to be included in ratemaking proceedings.

INTEREST RATE SWAP AGREEMENTS

Within 15 days of entering into a Swap, utility shall furnish to the Water Division a report analyzing the Swap including all costs associated with the Swap in comparison to a projection of "all-in-cost" without a Swap.

Within 45 days of entering into a Swap, utility shall provide the Water Division with a complete copy of the executed agreement and all associated documentation.

Utility shall separately report all interest income and/or expenses arising from all Swaps in all monthly and annual financial reports to the Commission.

Utility shall submit a semi-annual report to the Water Division showing all Swap receipts and payments. This report shall only be filed for periods when a Swap is outstanding.

If utility elects to terminate the Swap before the original maturity or the Swap partner terminates the Swap, all costs associated with the termination shall be subject to review in utility's next cost of capital proceeding.

Swaps shall not exceed the outstanding amount of its floating interest rate long-term debt obligations.

CONSTRUCTION BUDGET

The construction budget proposed for 200X, 200X, and 200X raises no questions that should dissuade us from giving favorable consideration to the financing requested in this Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

CASH REQUIREMENTS FORECAST

The utility's forecasts for 200X through 200X indicate that internally generated funds will provide approximately \$_____ or XX.X% of its total cash requirements of \$_____.

CAPITAL STRUCTURE

Capital structures are normally reviewed in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes;

or

The utility's ratesetting matters are normally reviewed during its Performance Based Ratemaking filings. We make no finding in this decision of the reasonableness of the utility's projected capital budget and capital ratios.

EXEMPTION FROM COMPETITIVE BIDDING

Exhibit A to Commission Resolution F-616 dated October 1, 1986, states, "Securities privately placed with specific lenders and bank term loans obviously may be negotiated.... Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule."

or

The Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher. Utility has informed staff by letter dated _____ that it has not been rated by any rating company.

USE OF PROCEEDS

We have reviewed utility's proposed use of proceeds and have determined that it is for proper purposes and is not adverse to the public interest. In accordance with PU Code § 818 and § 823(d), we will approve utility's intended use of proceeds (including repayment of short-term debt) from the proposed issue and sale of securities.

Utility is placed on notice by this decision that the proceeds from the financing transaction cannot be charged to operating expenses or income. We also remind utility to comply with the provisions of PU Code § 817 for use of proceeds for general corporate purposes.

CONCLUSIONS OF LAW

Utility should pay the fee determined in accordance with PU Code § 1904.

or

Utility should pay the fee in accordance with PU Code 1904(b). The fee computation should take into account the fee exemption for the refunding of outstanding indebtedness on which a fee has already been paid.

or

Utility has previously paid the fee of \$_____ determined in accordance with PU Code 1904 and in proportion to its California operating revenues.

ORDER

On or before the 25th day of each month, utility shall file the reports required by General Order Series 24.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

On or after the effective date of this order, but before _____, for the purposes specified, transferee may issue an evidence of indebtedness in principal not exceeding \$_____, (and may execute and deliver an encumbering document). This (these) document(s) shall be substantially the same as that (those) attached to the application.

On or after the effective date of this order, but before _____, for the purposes specified, transferee may issue up to _____ shares of common stock with par (stated) value of \$_____ per share.

Utility shall maintain and, within thirty days from request, provide the Water Division any or all of the following:

1. The price, interest rate and other terms pertaining to its issuance of Debt Securities.
2. Copies of the indentures and supplemental indentures setting forth, among other things, the aggregate principal amount, interest rate, conversion factors, redemption and sinking fund requirements and the maturity date of issues of bonds and debentures.
3. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of any series of notes.

FINANCING FEE

The authority granted by this order to issue an evidence of indebtedness (and to execute and deliver an encumbering document) will become effective when the issuer pays \$_____, set by PU Code § 1904(b). In all other respects this order becomes effective 30 days from today.

or

The authority granted by this order shall become effective when utility pays \$_____, the fee set forth by PU Code § 1904.

State Funded Loans

The utility is authorized in this Decision to enter into a loan agreement with _____ for the \$_____ loan and to institute a surcharge to customers to repay the loan with the following conditions:

1. To ensure adequate accountability of the transactions related to loan construction funds advanced by _____ to the utility, Applicant should deposit all such funds into a separate trust bank account. All disbursements of such _____ loan funds should be made from this trust bank account.
2. Applicant shall establish and maintain a separate balancing account in which shall be recorded all billed surcharge revenue. The balancing account shall be reduced by payment of principal and interest to the _____. A separate statement pertaining to the surcharge shall appear on each customer's water bill issued by the utility.
3. To assure repayment of the loan, Applicant shall deposit all rate surcharges collected with a fiscal agent approved by _____. Such deposits shall be made within 30 days after the surcharges are collected from customers.
4. The utility plant financed through the surcharge shall be separately identified and be permanently excluded from rate base for ratemaking purposes.
5. On or before _____, and yearly thereafter, Applicant shall send a comparative report to the Water Division stating the changes in the number of connections by type of customer and by size of connection, the amount of service fee collected, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account.
6. Changes in the surcharge rate shall be through the normal advice letter procedure.
7. The surcharge to repay the loan should last as long as necessary to repay the loan. The surcharge should not be commingled with other utility charges.

8. A service fee will be chargeable to customers requesting future services to currently undeveloped lots and will be the accumulated total of the monthly surcharge as applied to the property being furnished water service from the initial effective date of the surcharge to the date of connection. The maximum service fee will be \$_____. The service fee will be due and payable upon connection of water service to the property. Thereafter the customer shall pay the applicable tariff rates plus the monthly surcharge.
9. As a condition of the surcharge rate granted herein, Applicant shall be responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account when ordered by the Commission.
10. Applicant shall file with the Water Division a copy of the loan agreement within 15 days of execution.

It is appropriate to emphasize that the surcharge thus authorized will cover only the cost of the loan incurred to finance the improvements and additions. It will not preclude any future rate increase requests to recover rising costs of repair, materials, wages, property taxes, power bills, or other operating expenses that may be incurred in the future.

PU Code Section 828

No provision of this part, and no act done or performed under or in connection therewith, shall obligate the State to pay or guarantee, in any manner whatsoever, any stock or stock certificate or other evidence of interest or ownership, or bond, note, or other evidence of indebtedness, authorized, issued, or executed under the provisions of this part.

Notes:

Securities which the Commission authorizes are not guaranteed to be profitable, but must take their place with other securities, the Commission merely endeavoring to see that all possible efforts are made to safeguard them.

It should be clearly understood that in giving its consent to the issuance of securities, the incumbrance of property, the amendment or modification of existing securities and incumbrances and kindred matters, the Commission does not pass upon the sufficiency or legality of the proceedings which may have been taken or which may be contemplated by applicant under the laws of this State or other than the Public Utilities Act, the Commission only determines whether convenience and necessity will be subserved by the grant of the application and the terms and conditions, if any, necessary to this end.

Although articles of incorporation may provide that holders of preferred stock shall be paid a specified cumulative dividend, and that such dividend be paid before any dividend shall be paid to holders of common stock, neither such articles nor any action taken by the Commission in authorizing an issuance of stock guarantees the payment of dividends on the preferred stock.